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C O N F I D E N T I A L CAIRO 003349

SIPDIS

E.O. 12958: DECL: 06/01/2016

TAGS: [PREL](#) [PGOV](#) [PHUM](#) [EFIN](#) [ECON](#) [EAID](#) [KPAL](#) [EG](#) [IS](#)

SUBJECT: PALESTINIAN FUNDING MECHANISM: EGYPT AND ARAB
LEAGUE ANXIOUS TO SEE FUNDS MOVING

REF: A. STATE 86455 (NOTAL)

[B](#). CAIRO 3139

Classified by ECPO Counselor John Desrocher for reasons 1.4
(b) and (d).

[1](#). (C) On May 30, drawing from ref A talking points, post described USG thinking on creation of a temporary funding mechanism for assistance to the Palestinian people to MFA Palestinian Affairs Director Randa Labib and Arab League Cabinet Chief of Staff Hesham Youssef May 31. Both parties were particularly interested in the U.S. approach, and were anxious to know Washington's specific thinking on funding the salaries of Palestinian Authority personnel. Labib noted that Egypt's Foreign Minister had sent his personal advisor on the peace process to Brussels to participate in the talks on the subject.

[2](#). (C) Arab League Chief of Staff Hisham Youssef, who was at the latest round of discussions in Brussels over the funding mechanism issue, told poloff that the Arab League was anxious to see the issue resolved as quickly as possible, as he said the social situation - particularly in Gaza - was becoming increasing desperate. Youssef asserted that the League would not provide its financial assistance to the Palestinians through the mechanism created by the Quartet members ("i.e., the World Bank, or via banks"), but rather directly, transparently, and in conformity to international "rules" encompassing such transfers. Citing Arab public opinion, the League, he said, "by hook or by crook," would assist the Palestinian people and could not stand by as the Palestinians are reduced to "beggars."

[3](#). (C) Complicating the issue for the League, Youssef said, was a U.S. lawsuit recently filed on the Washington, D.C. offices of the Arab League, in conjunction with a class-action lawsuit on behalf of the families of U.S. citizens killed in Israel in 1996 by terror attacks carried out by Palestinians. The lawsuit seeks compensation from the PLO and the Palestinian Authority in the amount of USD 116 million dollars, and seeks to dip into recent financial donations made by Arab states to the Arab League on behalf of the Palestinian Authority - reported in local media to total USD 70 million. (Note: According to Egyptian sources (ref B), the amount of funds donated by Arab states for the Palestinian Authority currently totals USD 133 million. End note.
JONES